

— August 24, 2005 —



# Financial Management

Development and Management of  
the Army Game Project  
(D-2005-103)

— Department of Defense —  
Office of Inspector General —

Constitution of  
the United States

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## **Acronyms**

AGP	Army Game Project
FMR	Financial Management Regulation
MOVES	Modeling, Virtual Environments and Simulation
NPS	Naval Postgraduate School
USAF	United States Air Force
U.S.C.	United States Code



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

August 24, 2005

MEMORANDUM FOR DEPUTY CHIEF OF NAVAL OPERATIONS SUPPLY,  
ORDNANCE AND LOGISTICS OPERATIONS  
NAVAL INSPECTOR GENERAL  
PRESIDENT, NAVAL POSTGRADUATE SCHOOL

SUBJECT: Report on Development and Management of the Army Game Project (Report No. D-2005-103)

We are providing this report for information and use. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Byron B. Harbert at (303) 676-7392 (DSN 926-7392) or Mr. Jeffrey A. Lee at (303) 676-7429 (DSN 926-7429). The team members are listed inside the back cover. See Appendix D for the report distribution.

By direction of the Deputy Inspector General for Auditing:

Paul J. Granetto, CPA  
Assistant Inspector General  
Defense Financial Auditing  
Service

# **Department of Defense Office of Inspector General**

**Report No. D-2005-103**

(Project No. D2004-D000FD-0146.000)

**August 24, 2005**

## **Development and Management of the Army Game Project**

### **Executive Summary**

**Who Should Read This Report and Why?** The President of the Naval Postgraduate School, the Naval Postgraduate School Comptroller, and personnel in the Naval Postgraduate School Research Program who are responsible for the management and day-to-day operations of projects performed on a reimbursable basis should read this report. The report discusses the management of the Army Game Project by the Naval Postgraduate School.

**Background.** In May 2000, the Assistant Secretary of the Army for Manpower and Reserve Affairs and the President of the Naval Postgraduate School entered into a memorandum of agreement. The memorandum of agreement called for the Naval Postgraduate School to develop a state-of-the-art video game for the Army. The Naval Postgraduate School engaged their Modeling, Virtual Environments and Simulation (MOVES) Institute to perform the research and development work. The Army's purpose for having the game developed was to educate potential recruits on the Army's missions and functions and enhance recruiting opportunities. The game simulates the highly technological nature of modern U.S. Army warfare. The Army believed the game would stimulate interest and assist in meeting enlistment goals.

In March 2004, the Naval Postgraduate School received a memorandum from the Army that cited allegations of project mismanagement. As a result, the Naval Postgraduate School management contacted the Naval Inspector General and requested they look into the allegations raised by the Army. However, since the issues surrounding the allegations involved an Army organization and the project in question was funded by the Army, the Naval Inspector General referred the issue to the Office of the Deputy Inspector General for Auditing.

**Results.** The MOVES Institute made 45 improper charges totaling nearly \$500,000 to the Army Game Project and an Air Force Project. Specifically, it charged Army Game Project expenses to the Air Force Project, overcharged the Army Game Project for software licenses that benefited other projects, and misallocated contract labor costs between the Army Game Project and the Air Force Project. Consequently, the MOVES Institute did not charge customers the proper amount for goods and services provided and violated the provisions of 31 United States Code 1301(a). The Naval Postgraduate School should take actions to correct the improper charges, develop and implement controls to prevent future improper charges, and train Naval Postgraduate School managers in appropriations law and hold them accountable for full compliance (finding A).

The Naval Postgraduate School accepted a project order from the Army even though they lacked the capability to perform a major portion of the work on the project. The DoD Financial Management Regulation requires that an activity accepting project orders

perform a major portion of the work in-house to prevent the practice of one DoD organization acting as a general contracting agent for another DoD organization. As a result, the Naval Postgraduate School violated the Financial Management Regulation requirements on project orders and gave the appearance that they were acting as the Army's general contractor. The Naval Postgraduate School should not accept project orders if they do not have the resources to perform a major portion of the work ordered and should also monitor compliance with the Financial Management Regulation (finding B).

Internal control was not adequate to effectively manage and safeguard resources at the MOVES Institute. As a result, appropriations law was violated, pilferable property was not adequately safeguarded, travel regulations were not always complied with, and there was the appearance of nepotism. The Naval Postgraduate School needs to develop new controls and fully implement existing controls to ensure that all resources are safeguarded, to emphasize the need to comply with travel regulations, and to prevent employees being assigned to either supervise or be supervised by family members. Further, both the Navy and the Naval Postgraduate School should revise their guidance on accountability over pilferable property to be consistent with DoD guidance (finding C). We also reviewed the management control program as it related to the MOVES Institute and the Army Game Project. The conditions described in findings A and C were the direct result of the control weaknesses discussed in Appendix A. Implementation of the recommendations in this report should prevent recurrence of the conditions.

**Management Comments.** The Navy concurred with the findings and recommendations; therefore, no additional comments are required. See the Findings section and Appendix A of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

**Management Actions.** Throughout the audit we worked closely with the staff at the Naval Postgraduate School, and we commend the staff for their cooperation and aggressive approach to implementing corrective actions.

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## Background

The audit was performed in response to a request by the Naval Inspector General. The Naval Inspector General referred allegations made by an Army organization regarding management of an Army-funded research and development project by the Naval Postgraduate School (NPS). The project and related issues involved the Army, Navy, and Air Force.

**Development of America's Army Game.** In May 2000, the Assistant Secretary of the Army for Manpower and Reserve Affairs and the President of NPS entered into a memorandum of agreement for NPS to develop a state-of-the-art video game for the Army. NPS engaged the Modeling, Virtual Environments and Simulation Institute (MOVES), an institute within NPS, to perform the research and development work. The Army's purpose for having the game developed was to educate potential recruits on the Army's missions and functions and enhance recruiting opportunities. The game simulates the highly technological nature of modern U.S. Army warfare. Army officials believed the game would stimulate interest among potential recruits and assist in meeting enlistment goals.

**Allegations of Project Mismanagement.** In March 2004, NPS received a memorandum from the Army citing allegations of project mismanagement.

**Air Force Project.** In July 2003, the United States Air Force (USAF), Force Protection Battlelab, provided \$470,000 to the MOVES Institute at NPS to develop computer software that would simulate a convoy force protection scenario. The Air Force planned to use the software as a training aid for USAF military personnel assigned to protect USAF equipment and personnel under transport. The convoy scenario was to be added to the existing Army Game Project (AGP) game software. Work on the Air Force Project was initiated in September 2003. In August 2004, Air Force terminated the project before completion because of licensing issues related to use of commercially developed software. The software was an essential component to developing the Air Force convoy scenario.

**Naval Postgraduate School.** In 1945, Congress passed legislation to make NPS a fully accredited, degree-granting graduate institution. The school is comprised of four graduate schools, 14 departments, a center for executive education, three institutes, and many research centers. The school offers more than 40 programs of study, ranging from the traditional engineering and physical sciences to the rapidly evolving space science programs. The mission of the school is to provide relevant and unique advanced education and research programs in order to increase the combat effectiveness of U.S. and Allied armed forces and enhance the security of the United States.

**NPS Research Program and the MOVES Institute.** The research program at NPS is comprised of NPS funded or reimbursable projects. Reimbursable projects are referred to as sponsored projects, which are projects undertaken by NPS faculty and staff members that are funded by an external organization. The Army Game and Air Force projects were sponsored projects. Research and

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development work for the AGP was performed by the MOVES Institute, an institute at NPS that reports to the Dean of Research.

## **Other Matters of Interest**

The Navy concurred with the findings and recommendations. The actions taken by the Navy satisfy the intent of the recommendations and are fully responsive. Additional comments are not required. We would also like to commend the staff at NPS for their cooperation and aggressive approach to implementing corrective actions. See the Findings section and Appendix A of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

## **Objectives**

Our overall objectives were to evaluate allegations of project mismanagement by NPS of the AGP and to perform a reconciliation of funds expended and obligated against the project. We also reviewed the management control program as it related to the overall objectives. See Appendix A for a discussion of the scope and methodology, our review of the management control program, and prior coverage. See Appendix B for the reconciliation of funds expended and obligated against the project.

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## A. Charges to Project Orders

The MOVES Institute made 45 improper charges totaling nearly \$500,000 to the AGP and an Air Force Project. Specifically, the MOVES Institute charged AGP expenses to the Air Force Project, overcharged the AGP for software licenses that benefited other projects, and misallocated contract labor costs between the AGP and the Air Force Project. The improper charges occurred because:

- the Director of the MOVES Institute did not adhere to the requirements of 31 United States Code (U.S.C.) 1301(a), applicable provisions of the DoD Financial Management Regulation (FMR), and NPS internal policy;
- the Director of the MOVES Institute deliberately charged the Air Force appropriation while awaiting funds from the Army;
- NPS had not implemented controls to ensure that expenses were charged to the project benefited by the expenses; and
- the MOVES Institute did not have a methodology to allocate contract labor costs among benefited projects.

Consequently, the MOVES Institute did not charge customers the proper amount for goods and services provided and violated the provisions of 31 U.S.C. 1301(a).

## Guidance on Managing Appropriated Funds

**Government Accountability Office (GAO) Appropriations Law Manual.** Chapter 4 of Government Accountability Office, “Principles of Federal Appropriations Law,” third edition, Volume 1, January 2004, discusses 31 U.S.C. subsection 1301(a). 31 U.S.C. subsection 1301(a) requires that public funds be used only for the purposes for which they were appropriated. “It prohibits charging authorized items to the wrong appropriation, and unauthorized items to any appropriation. Anything less would render congressional control largely meaningless.” Further, the guidance states, “transfer between appropriations is prohibited without specific statutory authority, even where reimbursement is contemplated.” In addition, it specifies that “deliberately charging the wrong appropriation for purposes of expediency or administrative convenience, with the expectation of rectifying the situation by a subsequent transfer from the right appropriation, violates 31 U.S.C. subsection 1301(a).”

**DoD Financial Management Regulation.** DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” Volume 14, “Administrative Control of Funds and Antideficiency Act Violations,” October 2004 (as revised), “governs financial management by establishing and enforcing requirements, principles, standards, systems, procedure, and practices necessary to comply with financial management statutory and regulatory requirements applicable to the DoD.” The

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FMR requires that DoD entities “limit the obligation and expenditure of funds provided to the purposes authorized by type of fund or account.”

**NPS Guidance on Management of Sponsor Funds.** “Administration and Management of Academic Sponsored Programs at the Naval Postgraduate School,” NAVPGSCOL Instruction 3900.1C, 26 April 2001, provides guidance on the administration and management of appropriated funds provided by other Government organizations for projects managed by NPS. The instruction requires that all sponsor funds be used to support the work statement of the proposal and not be utilized for other purposes. Funds cannot be “loaned” or exchanged between projects. Further, the guidance specifies the responsibilities of NPS managers associated with the administration and management of sponsored programs. The NPS manager in charge of a project funded by a sponsor is known as the principal investigator. The principal investigator is responsible for initiating and approving all direct costs for sponsored projects under his/her control, and for assuring that all expenditures initiated from a specific sponsored funding account are in direct support of the project defined in the approved proposal. The NPS Dean of Research has overall responsibility for assuring that NPS and sponsor requirements are met regarding the proper use of sponsored funds.

## Air Force Project

The MOVES Institute improperly charged AGP expenses to the Air Force Project. Supporting documentation indicated that 40 expenses that benefited the AGP totaling \$268,255 were charged to the Air Force Project. The Director of the MOVES Institute deliberately charged the Air Force appropriation while awaiting funding from the Army. The improper charges included expenditures related to NPS faculty and staff labor, contract and service costs, equipment purchases, travel, and indirect cost charges. Table 1 contains details related to the improper charges.

Table 1. Improper Charges Made to the Air Force Project		
Expenditure Category	Quantity of Improper Charges	Amount of Improper Charges
NPS Faculty & Staff Labor	11	\$118,856
Contract & Service Costs	7	104,796
Equipment & Supplies	10	9,516
Travel	10	11,130
Indirect Cost	2	23,957
<b>Total Improper Charges</b>	<b>40</b>	<b>\$268,255</b>

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## Charges for Software Licenses

The MOVES Institute overcharged the AGP \$231,618 for software licenses that benefited other projects in addition to the AGP. In December 2001, the MOVES Institute used a combination of AGP and other DoD funds to pay a software developer \$200,000 for licenses authorizing use of the software for six projects, including the AGP, and \$100,000 to upgrade the authorization for use in an unlimited number of projects. Associated costs for General Services Administration contracting service fees were \$18,963. In January 2003, the MOVES Institute used AGP funds to pay the developer an additional \$100,000 for technical support services. Associated contracting service fees amounted to \$6,321. The AGP was one of the six projects that used the software licenses. Table 2 shows the amounts charged to the AGP, the amounts that should have been charged, and the amounts of overcharges. Although a separate payment was made for unlimited use of the software, this cost did not bear any logical relationship to the AGP. Therefore, none of this cost is included in the table as a cost to be shared by the Army.

**Table 2. Expenses for the Licenses and Technical Support Costs**

Item	Purchase Amount	Amount AGP Charged	Amount AGP Should Have Been Charged	Amount of Overcharge
Licenses	\$318,963	\$178,457	\$35,440	\$143,017
Technical Support Fee				
Total	\$425,284	\$284,778	\$53,160	\$231,618

## Contract Labor

The Director of the MOVES Institute misallocated contract labor costs between the AGP and the Air Force Project. Eight contractors worked on both the AGP and the Air Force Project where costs were misallocated. Total costs of three of the contractors were charged to the AGP, while total costs for the remaining five<sup>1</sup> were charged to the Air Force Project. The Army and Air Force projects were funded by separate appropriations for different purposes. No attempt was made by the MOVES Institute to properly allocate the labor costs. Consequently, some projects were charged for work not done while other projects were not charged for work done.

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<sup>1</sup> The five improper charges to the Air Force Project for contract labor are also included in Table 1 as improper charges to Contract & Service Costs.

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## **Compliance with Laws and Regulations**

The Director of the MOVES Institute did not adhere to the requirements of 31 U.S.C. 1301(a), applicable provisions of the FMR, and NPS internal policy. In addition, the MOVES Director deliberately charged the Air Force appropriation while awaiting funds from the Army, NPS had not implemented controls to ensure that expenses were charged to the project benefited by the expenses, and the MOVES Institute did not have a methodology to allocate contract labor costs among benefited projects. NPS needs to remove the incorrect charges made to the Air Force Project and AGP and apply the correct charges to those projects. After corrections are made, NPS should return any unused funds to the Air Force and the Army. It should be noted that the associated adjustments to NPS' accounting records may cause an Antideficiency Act violation. In addition, NPS needs to implement controls to ensure that expenses are charged to the applicable project. Those controls should include training NPS managers on appropriations law and holding them accountable for their actions. Training and accountability are critical to preventing a recurrence of this condition in the future.

## **Recommendations and Management Comments**

**A. We recommend that the President of the Naval Postgraduate School:**

- 1. Return \$268,255 of overcharges to the Air Force and \$231,618 of overcharges to the Army Game Project plus any unobligated amounts.**
- 2. Apply appropriate charges to projects that were undercharged.**
- 3. Report to the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) any Antideficiency Act violations that were caused by necessary adjustments to the Naval Postgraduate Schools' official accounting records as a result of the 31 United States Code 1301(a) violations.**
- 4. Develop and implement controls to ensure that all expenses are charged to the projects benefited in the correct amounts.**
- 5. Develop and implement a methodology to properly allocate the cost of contract labor in cases where contractors are performing work on multiple projects.**
- 6. Impose sanctions on Naval Postgraduate School personnel who violate appropriations law and/or related DoD, Navy, and Naval Postgraduate School guidance.**
- 7. Train Naval Postgraduate School Institute Directors and other appropriate officials on the requirements of appropriations law.**

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**8. Conduct periodic reviews of project charges to determine whether implemented controls are adequate and functioning as intended.**

**Management Comments.** The President of the Naval Postgraduate School concurred with all the recommendations.

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## B. Capability to Perform Project Orders

NPS accepted a project order from the Army even though NPS lacked the capability to perform a major portion of the work on the project. The FMR requires that an activity accepting project orders perform a major portion of the work in-house to avoid the practice of one DoD organization acting as a general contracting agent for another DoD organization. NPS erroneously followed obsolete Navy guidance instead of following the FMR on project orders. As a result, NPS violated FMR requirements on project orders and appeared to be acting as the Army's general contractor.

### Guidance on Performing Project Orders

**DoD Financial Management Regulation.** DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 11A, "Reimbursable Operations Policy and Procedures," Chapter 2, "Project Orders," March 1997, as revised through November 2002, states,

Project orders shall be issued only to those DoD-owned establishments that are capable of performing substantially the work ordered. "Substantially," as used in this paragraph, means that the project order recipient shall incur costs of not less than 51 percent of the total costs attributable to rendering the work or services ordered. Total costs to render the work or services ordered include the costs of goods or services obtained from or provided by contractors. The provisions of this chapter are not intended in any way to authorize one DoD-owned establishment to act as a general contracting or purchasing agent for another entity.

**Obsolete Navy Guidance.** Defense Finance and Accounting Service-Cleveland (DFAS-CL) became the proponent for Navy financial matters in January 1991. DFAS-Cleveland issued project order guidance (undated) in Naval Standard Operating Procedure 1000.3-M, "Appropriation, Cost and Property Accounting (Field)." The content of this manual was a combination of previous guidelines issued by the Office of the Comptroller, Navy and guidelines issued by DFAS-CL. The Navy/DFAS manual was superseded by the issuance of the guidance in the FMR discussed above. The Navy/DFAS manual defined in-house to "...also include contracts for technical support which are usable only to the performing activity in its accomplishment of the overall work required by the issuer." This provision is in contrast to the FMR requirement above, which does not allow the inclusion of contracts for technical support in the definition of in-house. Although this guidance was not officially canceled until May 2002, the issuance of the FMR criteria in March 1997 rendered this guidance obsolete.

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## **NPS Capability to Perform**

NPS accepted project orders from other DoD organizations, although it did not have the capability to substantially perform the work ordered. In performing the work ordered in the Army Game Project, 76 percent of the costs incurred were for goods or services obtained by contract.

## **NPS Practice**

NPS followed obsolete Department of the Navy guidance rather than following applicable DoD guidance. NPS management was unaware of the specific FMR requirement of having the capability to perform at least 51 percent of the work within the organization in order to accept project orders. NPS needs to implement controls to ensure that FMR requirements are met in accepting and accomplishing project orders. NPS also needs to develop a methodology to monitor compliance with the FMR.

## **Recommendations and Management Comments**

**B. We recommend that the President of the Naval Postgraduate School:**

- 1. Direct all Naval Postgraduate School organizations to accept project orders only when at least 51 percent of the work can be accomplished using NPS resources.**
- 2. Direct the Comptroller of the Naval Postgraduate School to develop and implement a methodology for monitoring compliance with the DoD Financial Management Regulation provisions for project orders.**

**Management Comments.** The President of the Naval Postgraduate School concurred with all the recommendations.

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## C. Internal Control

Internal control was not adequate to effectively manage and safeguard resources at the MOVES Institute. Controls over property accountability, travel, and personnel assignments were ineffective or nonexistent because NPS managers did not place sufficient priority on implementing effective controls within the organization. As a result, pilferable property was not adequately safeguarded, instances of noncompliance with travel regulations occurred, and sons and daughters were assigned to work for their fathers.

### Control Over Pilferable Property

The MOVES Institute did not maintain inventory records or other controls over pilferable property that had a value of less than \$5,000. The Institute's property included laptop and desktop computers, cellular telephones, computer hard drives, and other pilferable technical equipment. Based on information provided by the NPS Director of Research, we estimated that at least 10% of items purchased by the MOVES Institute were pilferable. However, because most of these items had a value of less than \$5,000, they were not adequately controlled. This lack of control over pilferable property became readily apparent when we attempted to follow up on an allegation that two laptop computers had been stolen from the MOVES Institute. There was no way to determine if the allegation had merit because the MOVES Institute did not maintain sufficient records for controlling the computers. Also, Command Evaluation, the NPS internal audit function, reported some of the same problems related to pilferable property in FYs 2003 and 2004.

### Compliance with Pilferable Property Guidance

DoD guidance requiring that records be maintained on all pilferable property, regardless of value, was not followed. Further, Navy and NPS guidance was vague in defining accountability requirements over pilferable property. Consequently, the Navy and NPS allowed individual managers the discretion of controlling pilferable property costing under \$5,000. Navy guidance, Secretary of Navy Instruction 7320.10A, requires that accountable records be maintained on pilferable property valued at less than \$5,000, but only if it is critical to the activity's business or mission and is hard to repair or replace. NPS Instruction 11016.4A requires that all property having an acquisition cost of less than \$5,000 be recorded and tracked in the Defense Property Accountability System, but only if the commanding officer determines that it is classified or sensitive. Further, the NPS instruction defines pilferable property as being property that is critical to fulfilling the mission or business objectives; hard to repair or replace; and portable and easily converted to personal use. However, neither the Navy nor the NPS Instructions define the criteria by which property should be judged for criticality to the mission or difficulty regarding repair or replacement. Consequently, the instructions are vague, not consistent with DoD guidance, and

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open to interpretation. Specific guidance related to pilferable property is in Appendix C.

## Travel Documentation

Our review consisted of 56 of 286 vouchers related to trips funded by the AGP and Air Force Project. We identified problems with 9 of the 56 vouchers. Problems included missing travel receipt documents, lack of proper approvals, approval for payment of unsupported amounts claimed, and payment of unauthorized non-travel related expenses on one travel voucher. We were unable to review 230 of 286 trips that were funded by the AGP and Air Force Project because prior to an August 2003 revision, the FMR allowed travelers to maintain receipts supporting their travel vouchers. The 2003 FMR revision required that all travel supporting documentation be maintained in the office that certification occurred. However, NPS did not implement the revised policy and continued the former policy of allowing travelers to maintain supporting documentation. As a result, complete travel documentation was not available for personnel who were no longer employed at NPS.

## Compliance with Travel Guidance

Travel regulations were not always followed by travelers and travel authorizing officials, NPS authorizing officials and travel payment personnel did not ensure that all vouchers were properly approved prior to payment, and internal NPS travel policies and procedures were not consistent with the FMR. Further, in annual reports issued between FY 2001-2004, Command Evaluation reported some of the same problems related to travel.

**Following Guidance.** In some instances, travelers disobeyed travel regulations by claiming excess or unauthorized expenses and by self-approving a voucher. In other instances, travelers did not obtain approval of their vouchers. The travel payment office paid those vouchers instead of sending them back to the claimants for correction.

**NPS Guidance.** NPS Instruction 4650.4E, 22 November 2002, requires travelers to retain all receipts for expenses for 4 years and 3 months. This requirement conflicts with the FMR requirement of 6 years and 3 months. See Appendix C for guidance related to travel.

**Defense Travel System.** NPS recently implemented the Defense Travel System, whereby travel vouchers are submitted for payment electronically to the Defense Finance and Accounting Service. The Defense Travel System will not process travel vouchers for payment unless a proper approval has been accomplished. Consequently, we are not making a recommendation related to travel voucher approval.

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**Collection of Overpayments.** When we informed the NPS travel office of two overpayments, the travel office took immediate action to collect the overpayments.

## Employment of Relatives

Sons and daughters of MOVES Institute professors were temporarily assigned to work directly or indirectly for their respective fathers. NPS hired three individuals as summer student interns and a fourth individual was hired as a research associate. All were initially assigned to the Computer Science Department at the Graduate School for Operational and Informational Sciences. Subsequently, those individuals were temporarily re-assigned to work on various projects managed by the MOVES Institute. One individual was the son of the MOVES Institute Director, and the other three individuals were sons or daughters of NPS professors who were assigned to MOVES Institute projects. All four of the sons and daughters performed limited work on the MOVES Institute projects. In one instance, the son of the MOVES Institute Director was temporarily assigned to work for a professor who worked for the Director. When the professor chastised the son of the Director for misusing Government resources and dressing inappropriately, the Director criticized the professor. In two other instances, employees attended out-of-town conferences with their fathers. One conference, attended by a MOVES Institute official and his son, was charged to the AGP. When questioned about the need for the trip, NPS officials were unable to provide us with adequate justification. An Army official specifically informed the MOVES Institute that he could not justify funding a conference attendance by the MOVES official's son. Nevertheless, the MOVES official's son was subsequently authorized to attend the conference. Appendix C discusses general guidance related to employment of relatives.

## NPS Employee Assignment Process

Although NPS had controls to ensure that employees were not permanently assigned to work under the supervision of relatives, NPS did not have controls over temporary assignments. NPS used an informal process that allowed the loan of employees to different work units as needs arose.

**NPS Initiatives.** When we informed NPS management of the temporary assignments of relatives, the Director, NPS Human Resources Office, informed us that a formal policy would be developed and implemented at NPS to prevent the appearance of nepotism. The proposed policy is currently being coordinated through appropriate NPS management channels.

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## **Conclusion**

The internal control deficiencies related to property accountability, travel, and managing employment of relatives—as well as appropriated funds and FMR guidance, as discussed in findings A and B—are indicative of an organization that needs to re-prioritize its efforts to implement effective internal control. Greater emphasis should be placed on requiring managers to develop and enforce an effective and comprehensive system of internal control to protect the Government’s interests.

## **Recommendations and Management Comments**

### **C.1. We recommend the President, Naval Postgraduate School:**

#### **a. Strengthen internal control over pilferable property by:**

**(1) Requiring that Naval Postgraduate School Instruction 11016.4A be revised to comply with Instruction 5000.64 and the DoD Financial Management Regulation.**

**(2) Identifying, inventorying, and recording in accountable records all pilferable property.**

**(3) Performing periodic reviews of pilferable property.**

**(4) Identifying pilferable property as an assessable unit in the Naval Postgraduate School Management Control Program.**

#### **b. Eliminate identified internal control weaknesses related to travel by:**

**(1) Training all NPS personnel whose duties require travel on the provisions of travel laws and regulations.**

**(2) Revising Naval Postgraduate School Instruction 4650.4E to comply with the DoD travel regulations. The revision should include requiring authorizing officials to retain travel documentation in the office where certification occurred for 6 years and 3 months.**

**(3) Conducting periodic reviews of travel authorizations and paid vouchers.**

#### **c. Develop a formal policy on employment of relatives that will:**

**(1) Prohibit the assignment of employees to a relative, whether on a temporary or permanent basis.**

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**(2) Require potential conflicts of interest to be considered before assigning relatives to any position at the Naval Postgraduate School.**

**(3) Require the Director, Naval Postgraduate School Human Resources Office, approve all assignments, reassignments, and temporary assignments.**

**(4) Require the Director, Naval Postgraduate School Human Resources Office, to maintain an up-to-date list of all relatives employed at the Naval Postgraduate School to be used in reviewing requested reassignments and personnel loans for approval.**

**d. Request the Naval Audit Service to accomplish a comprehensive audit of the Naval Postgraduate School as soon as possible. The audit should include a top to bottom review of the School's system of internal control.**

**C.2. We recommend that the Deputy Chief of Naval Operations Supply, Ordnance and Logistics Operations revise Secretary of Navy Instruction 7320.10A to comply with DoD Instruction 5000.64 and the DoD Financial Management Regulation by requiring adequate accountability of pilferable property, regardless of value.**

**Management Comments.** The President of the Naval Postgraduate School and the Director, Supply, Ordnance and Logistics Operations Division concurred with all the recommendations.

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## Appendix A. Scope and Methodology

We evaluated allegations of project mismanagement of the AGP by the MOVES Institute at NPS. In addition, we performed a reconciliation of funds expended and obligated against the project.

The Army sponsored the project at a cost of more than \$19 million. The project primarily involved an Army organization and NPS. During the audit, we also contacted an Air Force and another DoD organization. Further, we gathered related information from contractor personnel associated with the MOVES Institute.

We examined accounting and funding records, contracts, travel documents, personnel files, inventory records, and other supporting documentation, provided by the Army and the Navy, for the period FY 2000 through FY 2004. Further, we interviewed MOVES Institute officials, the NPS Comptroller and Director of Research, Army officials, and contractor personnel. We also met with Air Force officials to discuss expenditures made against their project.

We performed this audit from April 2004 through May 2005 in accordance with generally accepted government auditing standards.

**Use of Computer-Processed Data.** We used data and reports generated from the Department Online Reporting System, Standard Accounting and Reporting System, Electronic Time and Attendance System, and Travel Manager System, but did not rely on the information in these systems to support our findings. We obtained source documentation, which validated the data we used from these systems.

**Government Accountability Office High-Risk Area.** The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Financial Management and Contract Management high-risk areas.

## Management Control Program Review

DoD Directive 5010.38, "Management Control Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of the Review of the Management Control Program.** We reviewed the adequacy of the Management Control Program as it relates to the MOVES Institute. Specifically, we determined whether NPS had procedures and controls covering the wide range of issues presented in this report. We also reviewed management's self-evaluation of those controls.

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**Adequacy of Management Controls.** We identified material management control weaknesses for NPS, as defined by DoD Instruction 5010.40. Some NPS management controls were not adequate for implementing Federal laws, DoD regulations, and NPS instructions. Further, in some instances, NPS managers disregarded controls that were already in place. The recommendations, if implemented, will correct the identified weaknesses and improve the overall management of sponsored programs. A copy of the report will be provided to the senior official responsible for management controls at NPS.

**Adequacy of Management's Self-Evaluation.** NPS officials identified the MOVES Institute as an assessable unit. However, in its evaluation, the MOVES Director did not identify the specific material management control weaknesses identified by the audit because he did not consider the weaknesses important enough to report to higher management. NPS officials have included in their most recent Management Control Certification Statement a weakness pertaining to insufficient fiscal oversight on reimbursable program execution.

**Management Comments.** NPS believes implementation of the recommendations addressed in this report should help strengthen internal control at NPS. In addition, to emphasize the importance of the management control program, the Deans and Chairs at NPS were briefed on the requirements and responsibilities of the program. Moreover, NPS has contracted with IBM Business Consultants to provide management control program awareness training. Also, NPS did identify pilferable property in their management control program as a weakness prior to our audit. Finally, the internal review function at NPS plans to conduct more reviews on sponsored program financial analysts and travel.

## Prior Coverage

During the last 5 years, the Naval Audit Service has issued one report related to the Management of Sponsored Programs at NPS. Unrestricted Naval Audit Service reports can be accessed over the Internet at <http://www.hq.navy.mil/navalaudit>. Unrestricted DoD-OIG reports can be accessed at <http://www.dodig.mil/audit/reports>.

## Navy

Naval Audit Service Audit Report No. N2003-0066, "Managing Sponsored Projects at the Naval Postgraduate School," July 25, 2003

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## Appendix B. Reconciliation of Army Game Project Funds

### Reconciliation Process

A little more than \$19 million was provided to NPS by four separate Army organizations to fund research and development of the AGP. Using NPS accounting records, we performed a reconciliation of all funds expended and obligated against the AGP to determine the unobligated balance. As of May 20, 2004, \$354,893 had not been obligated and was eligible to be returned to corresponding Army sponsors. The table below provides details showing the sources of funds, funding document numbers, amounts of funding, and the unobligated balances.

Reconciliation of AGP Funds				
Issuing Entity	No.	MIPR Number	MIPR Amount	Unobligated Balance
<b>ASA/M&amp;RA</b>	1	MIPR0HNAVL1010	\$ 3,500,000	\$ 95,095
	2	MIPR1CNPSL1006	2,030,000	59,165
	3	MIPR01L1269001	3,570,000	18,936
	4	MIPR0222811021	400,000	0
	5	MIPR02228L1022	600,000	0
	6	MIPR02228L1023	712,985	35,540
	7	MIPR03271L1001	500,000	0
	8	MIPR03237L1002	<u>2,100,000</u>	(30,742)
<b>Subtotal MIPR Amount/Unobligated Bal.</b>			<b>\$13,412,985</b>	<b>\$177,994</b>
<b>USAREC</b>	9	MIPR3D03000077	4,000,000	176,892
	10	MIPR3E03000092	<u>1,387,109</u>	<u>0</u>
<b>Subtotal MIPR Amount/Unobligated Bal.</b>			<b>\$ 5,387,109</b>	<b>\$176,892</b>
<b>FORSCOM</b>	11	MIPR2MJR300001	150,000	7
<b>TACOM</b>	12	MIPR3EPIC00731	<u>49,996</u>	<u>0</u>
<b>Total</b>			<b>\$19,000,090</b>	<b>\$ 354,893</b>
MIPR - Military Interdepartmental Purchase Request USAREC - U.S. Army Recruiting Command FORSCOM - U.S. Army Forces Command TACOM - U.S. Tank and Automotive Command				

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## Appendix C. General Guidance

### Guidance on Pilferable Property

**DoD Instruction.** DoD Instruction 5000.64, “Defense Property Accountability,” August 2002, provides a foundation for DoD property accountability, policies, procedures and practices. According to the instruction, record keeping must be established for pilferable items. It defines pilferable items as having a ready resale value or application to personal possession, resulting in the item being especially subject to theft.

**DoD Financial Management Regulation.** DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” Volume 4, “Accounting Policy and Procedures,” August 2000, with revisions through October 2003, prescribes the accountability requirements for DoD property, plant, and equipment. The FMR specifies that property, plant, and equipment considered subject to pilferage shall be documented in property accountability records or systems regardless of cost.

**Navy Guidance.** Secretary of Navy Instruction 7320.10A, “Department of the Navy Personal Property Policies and Procedures,” April 2004, established the Navy’s accountability requirements for personal property. The Navy instruction states accountable records shall be established and maintained for all personal property having an acquisition cost of \$5,000 or more, as well as items below the \$5,000 threshold that meet all of the following three criteria:

- pilferable,
- critical to the activity’s business/mission, and
- hard to repair or replace.

**NPS Guidance.** “Plant and Minor Property Management,” NAVPGSCOL Instruction 11016.4A, 11 June 2001, summarizes procedures for acquisition, control, accountability, and disposal of property at NPS. The instruction specifies that all minor personal property having an acquisition cost of less than \$5,000 will be recorded and tracked in the Defense Property Accountability System if it has been determined to be sensitive and/or classified by the commanding officer, has a recovery period equal to or greater than 24 months, and does not meet all the capitalization criteria. It defines classified equipment as items requiring protection and control in the interest of national security and sensitive equipment as requiring protection and control due to statutory, regulatory, or mission requirements.

### Guidance on Travel

**DoD Financial Management Regulation.** DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” Volume 9, “Travel Policy and Procedures,”

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August 2004 (as revised), provides guidance on the responsibilities of individuals involved in the travel process. The FMR requires authorizing officials to certify travel claims for payment and to retain copies of travel vouchers and supporting receipts. The FMR requires that the documents be maintained in the office where certification occurred and be made available for random post payment reviews and audits for a period of 6 years and 3 months, in accordance with National Archives and Records Administration General Records Schedule Six-“Accountable Officers’ Accounts Records.” Further, the FMR prohibits travelers from certifying and approving their own travel claims.

**Internal NPS Guidance.** NPS Instruction 4650.4E, 22 November 2002, requires travelers to retain travel-related receipts for expenses for a period of 4 years and 3 months. The guidance further requires that authorizing officials review receipts.

## Accountability Guidance on Personnel Practices

**United States Code.** 5 U.S.C. 3110, “Employment of Relatives; Restrictions,” states that, “a public official may not appoint, employ, promote, advance, or advocate for appointment, employment, promotion, or advancement, in or to a civilian position in the agency in which he is serving or over which he exercises jurisdiction or control, any individual who is a relative of the public official. An individual may not be appointed, employed, promoted, or advanced in or to a civilian position in an agency if such appointment, employment, promotion, or advancement has been advocated by a public official, serving in or exercising jurisdiction or control over the agency, who is a relative of the individual.” Further, “an individual appointed, employed, promoted, or advanced in violation of this section is not entitled to pay, and money may not be paid from the Treasury as pay, to an individual so appointed, employed, promoted, or advanced.”

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## **Appendix D. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Director, Program Analysis and Evaluation

### **Department of the Army**

Assistant Secretary of the Army (Manpower and Reserve Affairs)  
Auditor General, Department of the Army  
Office of Economic and Manpower Analysis

### **Department of the Navy**

Assistant Secretary of the Navy (Manpower and Reserve Affairs)  
Vice Chief of Naval Operations  
Deputy Chief of Naval Operations Supply, Ordnance and Logistics Operations  
Naval Inspector General  
Commander, Naval Education and Training Command  
Auditor General, Department of the Navy  
President, Naval Postgraduate School

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force  
Force Protection Battlelab

### **Combatant Commands**

Inspector General, U.S. Joint Forces Command

### **Non-Defense Federal Organization**

Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Homeland Security and Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform  
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform  
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform



# Department of the Navy Comments



DEPARTMENT OF THE NAVY  
OFFICE OF THE SECRETARY  
1000 NAVY PENTAGON  
WASHINGTON, D.C. 20350-1000

JUL 20 2005

## MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Report on Development and Management of the Army Game Project  
(Project No. D2004-D000FD—0146.000)

As requested by Department of Defense Inspector General (DoD OIG) memorandum on May 31, 2005, subject report has been reviewed. The Department of the Navy (DON) provides the attached comments and recommendations for your review and consideration. The Director, Supply, Ordnance & Logistics Operations Division and the President, Navy Postgraduate School's comments are provided at Attachments (1) and (2) respectively. A copy of the draft report is located at Attachment (3).

A handwritten signature in black ink, appearing to read "William A. Navas, Jr." followed by a stylized surname.

William A. Navas, Jr.  
Assistant Secretary of the Navy  
(Manpower and Reserve Affairs)

Attachments:  
As stated



DEPARTMENT OF THE NAVY  
OFFICE OF THE CHIEF OF NAVAL OPERATIONS  
2000 NAVY PENTAGON  
WASHINGTON, D.C. 20380-2000

IN REPLY REFER TO  
4000  
Sor N413T/5009958  
06 Jul 2005

From: Director, Supply, Ordnance & Logistics Operations  
Division

To: Assistant Secretary of the Navy (M&RA),  
ATTN: Captain Terry Horton

Subj: REPORT ON DEVELOPMENT AND MANAGEMENT OF THE ARMY GAME  
PROJECT (PROJECT NO. D2004-D000FD-0146.000)

Ref: (a) DODIG Memorandum dtd 31 May 2005

1. Reference (a) provides subject draft report for review and comment. We concur with recommendation C.2 to revise Secretary of Navy Instruction 7320.10A to comply with DoD Instruction 5000.64 and the DoD Financial Management Regulation (FMR) that requires adequate accountability of pilferable property, regardless of value.
2. OPNAV N41 point of contact is LCDR Ed Bogdanowicz, 703-604-9948.

A handwritten signature in black ink, appearing to read "W. L. Hunkel".  
W. L. HUNKEL  
By direction



DEPARTMENT OF THE NAVY  
NAVAL POSTGRADUATE SCHOOL  
1 UNIVERSITY CIR  
MONTEREY CA 93943-5000

IN REPLY REFER TO:  
5000  
Ser 00/078  
11 Jul 05

From: President, Naval Postgraduate School  
To: Assistant Secretary of the Navy (Manpower and Reserve Affairs)  
Subj: DoD OIG DRAFT OF A PROPOSED REPORT, DEVELOPMENT AND MANAGEMENT OF THE ARMY GAME PROJECT (PROJECT NO. D2004-D000FD-0146.000)  
Ref: (a) DoD OIG Memorandum of 31 May 05  
(b) DoD OIG Project No. D2004-D000FD-0146.000 Draft Report

Encl: (1) Management Comments to Recommendations

1. References (a) and (b) provided subject draft report to this office for review and comment. Upon review of the draft report, we concur with the findings made by the Department of Defense Office of Inspector General, (DoD OIG). NPS has evaluated all recommendations and developed a plan to implement necessary corrective action.

2. Please address any questions to Megan Reilly, NPS Comptroller at DSN 756-2192 or Commercial (831) 656-2192

*P.W. Dunne*  
PATRICK W. DUNNE

Management Response to DoD OIG Draft Audit Report,  
Project No. D2004-D000FD-0146.000, Development and  
Management of the Army Game Project, dated 31 May 2005

A. Charges to Project Orders.

Recommendation A.1: Return \$268,255 of overcharges to the Air Force and \$231,618 of overcharges to the Army Game Project plus any unobligated amounts.

Management Comment: Naval Postgraduate School (NPS) concurs with the amount of overcharges. There were also undercharges on each of these accounts. This was worked in detail with the DoD OIG audit team. All NPS actions for the Air Force account are complete. With the combination of overcharges and remaining balance, the Air Force was credited back \$357,790.29. NPS has returned \$212,305.43 of this amount to the Air Force. The Defense Finance and Accounting Service, Charleston is processing a refund for the remaining \$145,484.86 for charges already expensed. The Army Game Project is being adjusted accordingly.

Estimated Completion Date: November 30, 2005

Recommendation A.2: Apply appropriate charges to projects that were undercharged.

Management Comment: NPS concurs with the recommendation. Comptroller initiated action in conjunction with the Research and Sponsored Programs Office to identify and correct all erroneous charges. Naval Education and Training Command has appointed an investigator to perform a preliminary review of potential ADA resulting from the DoD OIG Audit (reference NETC ltr Ser N00C/0076 dtd 30 June 2005). NPS will validate these corrective actions with the appointed investigator.

Estimated Completion Date: November 30, 2005

Recommendation A.3: Report to the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) any Antideficiency Act violations that were caused by necessary adjustments to the Naval Postgraduate Schools' official accounting records as a result of the 31 United States Code 1301(a) violations.

Management Comment: NPS concurs with this recommendation. To date there are no Antideficiency Act (ADA) violations as a result of necessary adjustments to the Air Force project. Should an ADA violation occur when the Army Game Project

Encl (1)

adjustments are completed, NPS will report this to the Office of the Assistant Secretary of the Navy (FM&C) in accordance with DoD 7000.14-R, Volume 14, as required. Naval Education and Training Command has appointed an investigator to perform a preliminary review of potential ADA resulting from the DoD OIG Audit (reference NETC ltr Ser N00C/0076 dtd 30 June 2005).

**Recommendation A.4:** Develop and implement controls to ensure that all expenses are charged to the projects benefited in the correct amounts.

**Management Comment:** NPS concurs with this recommendation. NPS believes that with the implementation of all of the recommendations made by the DoD OIG Audit Report, this will strengthen and augment the existing internal control system to meet this recommendation.

**Estimated Completion Date:** January 31, 2006

**Recommendation A.5:** Develop and implement a methodology to properly allocate the cost of contract labor in cases where contractors are performing work on multiple projects.

**Management Comment:** NPS concurs with this recommendation. NPS will coordinate the development of this cost allocation methodology with the Naval Audit Service to ensure that it meets necessary compliance standards.

**Estimated Completion Date:** January 31, 2006

**Recommendation A.6:** Impose sanctions on Naval Postgraduate School personnel who violate appropriations law and/or related DoD, Navy, and Naval Postgraduate School guidance.

**Management Comment:** NPS concurs with this recommendation. The MOVES Director was removed from the position of MOVES Institute Director and is no longer employed by NPS. Sanctions are being taken against one other MOVES employee responsible for the financial discrepancies.

Research and Sponsored Programs Office updated the Sponsored Program Policy/Guidance Memorandum No. SPPGM-05-04 30 September 2004. NPS Instruction 3900.1C will be revised by 22 July 2005. These documents stipulate that any act of non-compliance to NPS rules and regulations will result in the loss of reimbursable authority for the Principle Investigator or Program Manager.

"Failure to comply with the accountability standards set forth by NPS will result in the "freezing" of non-labor expenditures on all project accounts of the PI/PM. The Chair/Dean/Director of the PI/PM will be notified of the action by the RSPO. A certification must be returned to the RSPO signed by the Chair/Dean/Director and PI/PM stating that the accountability policies have been reviewed and will be adhered to in the future. When the certification is returned to the RSPO, accounts of the PI/PM will be "unfrozen." The freezing of an account can have a negative impact on the timely delivery of the proposed sponsored activity. Non-compliance with accountability standards must be avoided. Repeated occurrence of non-compliance by a PI/PM will jeopardize the PI/PM's opportunity to participate in sponsored activities" (excerpt from SPPGM-05-04).

**Estimated Completion Date:** This action is considered complete.

**Recommendation A.7:** Train Naval Postgraduate School Institute Directors and other appropriate officials on the requirements of appropriations law.

**Management Comment:** NPS concurs with this recommendation. The NPS Comptroller and the Director of Research and Sponsored Programs provided mandatory training on appropriation law and sponsored program management requirements to all Principal Investigators (which would include the Institute Directors), Program Managers and Sponsored Program Financial Analysts during the period from 9 September through 19 October 2004. Sponsored Program Policy/Guidance Memo No. SPPGM-05-04 30 September 2004 issued by the Research and Sponsored Programs Office requires all PI/PMs review the accountability standards, which include appropriations law, in the conduct of sponsored activities on an annual basis. The certification is required prior to the release of funding for a sponsored project account.

**Estimated Completion Date:** This action is considered complete.

**Recommendation A.8:** Conduct periodic reviews of project charges to determine whether implemented controls are adequate and functioning as intended.

**Management Comment:** NPS concurs with this recommendation. NPS Command Evaluation will expand the scope of their planned annual review of Sponsored Program Financial Analysts to include a random sample of project charges to determine if controls are adequate and functioning as intended.

**Estimated Completion Date:** Command Evaluation review is scheduled for 4<sup>th</sup> QTR FY05. Initial completion date is 30 September 2005 with issuance of report by 30 October 2005. This review will occur annually thereafter.

**B. Capability to Perform Project Orders.**

**Recommendation B.1:** Direct all Naval Postgraduate School organizations to accept project orders only when at least 51 percent of the work can be accomplished using NPS resources.

**Management Comment:** NPS concurs with this recommendation. NPS issued Policy # 05-002 to comply with the 51 percent rule in March 2005.

**Estimated Completion Date:** This action is considered complete.

**Recommendation B.2:** Direct the Comptroller Naval Postgraduate School to develop and implement a methodology for monitoring compliance with the DoD Financial Management Regulation provisions for project orders.

**Management Comment:** NPS concurs with this recommendation. In March 2005, the Funds Receipt Division within the NPS Comptroller's Office implemented a process to centrally monitor compliance of incoming project order funding documents by validating the document to the budget page proposal prior to acceptance of the funds.

**Estimated Completion Date:** This action is considered complete.

**C. Internal Controls.**

**C.1.a: Strengthen internal control over pilferable property.**

**Recommendation C.1.a (1):** Requiring that Naval Postgraduate Instruction 11016.4A be revised to comply with Instruction 5000.64 and the DoD Financial Management Regulation.

**Management Comment:** NPS concurs with this recommendation. NPS Instruction 11016.4A is being revised to improve accountability requirements and supporting processes for pilferable property. The revised instruction will define NPS pilferable property, define additional responsibilities, and standardize a process for receiving property.

**Estimated completion date:** November 1, 2005

**Recommendation C.1.a (2):** Identifying, inventorying, and recording in accountable records all pilferable property.

**Management Comment:** NPS concurs with this recommendation. NPS has recently hired a Property Manager on 27 June 2005. A plan of action and milestones has been developed which addresses implementation of a program with necessary internal controls.

**Estimated Completion Date:** March 1, 2006

**Recommendation C.1.a (3):** Performing periodic reviews of pilferable property.

**Management Comment:** NPS concurs with this recommendation. NPS Command Evaluation is incorporating this review in the FY 2006 Annual Audit Plan.

**Estimated Completion Date:** Target date for the review is 2<sup>nd</sup> Quarter FY06. Intent is to allow the newly hired Property Manager to meet the milestones in the plan of action that was developed for pilferable property prior to review.

**Recommendation C.1.a(4):** Identifying pilferable property as an assessable unit in the Naval Postgraduate School Management Control Program.

**Management Comment:** NPS concurs with this recommendation. NPS incorporated pilferable property into the FY 2005 Management Control Program Instruction as a line item for assessable unit responsible managers. It will be established as an assessable unit in the FY 2006 Management Control Program under the cognizance of the newly hired Property Manager.

**Estimated Completion Date:** Included in the Management Control Program for FY05 as a line item under responsible managers. Inclusion as an assessable unit in the Management Control Program Instruction will occur when it is revised and reissued in 3<sup>rd</sup> Qtr FY 2006.

**C.1.b. Eliminate identified internal control weaknesses related to travel.**

**Recommendation C.1.b(1):** Training all NPS personnel, whose duties require travel, on the provisions of travel laws and regulations.

**Management Comment:** NPS concurs with this recommendation. Currently NPS Instruction 4650.4F requires annual training of

all Travel Authorizing Officials. Additionally, all Government Travel Cardholders are trained upon entry or as a requirement when receiving their travel card. NPS is in full compliance with the training requirements set forth in the Joint Travel Regulation (JTR) and Joint Federal Travel Regulations (JFTR).

Estimated Completion Date: This action is considered complete.

Recommendation C.1.b(2): Revising Naval Postgraduate School Instruction 4650.4E to comply with the DoD travel regulations. The revision should include requiring authorizing officials to retain travel documentation in the office where certification occurred for 6 years and 3 months.

Management Comment: NPS concurs with this recommendation. NPS Instruction 4650.4E was revised as of 6 April 2005.

Estimated Completion Date: This action is considered complete.

Recommendation C.1.b(3): Conducting periodic reviews of travel authorizations and paid vouchers.

Management Comment: NPS concurs with this recommendation. Currently NPS Command Evaluation conducts annual reviews of travel authorizations, vouchers and the NPS travel card program. This review will include appropriateness of funding utilized for projects.

Estimated Completion Date: This action is considered complete.

C.1.c. Develop a formal policy on employment of relatives.

Recommendation C.1.c(1): Prohibit the assignment of employees to a relative, whether on a temporary or permanent basis.

Management Comment: NPS concurs with this recommendation. NPS has issued NPS Instruction 12310.1 on 22 March 2005. Senior leaders to include the Deans, Department Chairs, and Institute Directors were briefed at the time the instruction was issued. Additionally, a policy regarding the personnel supported under reimbursable contracts, to include temporary assignments, has been written and expressly prohibits a faculty member or staff member to be paid from a reimbursable project belonging to a family member. The Director, HRO has established a listing of familial relationships among members of the faculty and staff with updates done on an ongoing basis. This list will be

provided to all Department Chairs, Deans, and Institute Directors on a quarterly basis to ensure compliance with the instruction and policy.

Estimated Completion Date: This action is considered complete.

Recommendation C.1.c(2): Require potential conflicts of interest to be considered before assigning relatives to any position at the Naval Postgraduate School.

Management Comment: NPS concurs with this recommendation. NPS has issued NPS Instruction 12310.1 on 22 March 2005. Potential conflicts of interest are to be managed by the Dean, Department Head, or Director in conjunction with the Director, HRO. Should these parties not resolve the conflict then final resolution will be referred to the Provost and/or Chief of Staff.

Estimated Completion Date: This action is considered complete.

Recommendation C.1.c(3): Require the Director, Naval Postgraduate School Human Resources Office, approve all assignments, reassessments, and temporary assignments.

Management Comment: NPS concurs with this recommendation. NPS has issued NPS Instruction 12310.1 on 22 March 2005. In accordance with the issued instruction and the policy regarding the personnel supported under reimbursable contracts, all requests to permanently or temporarily assign or reassign employees who have familial relationships will be referred to the Director, HRO, for approval prior to these actions being effected.

Estimated Completion Date: This action is considered complete.

Recommendation C.1.c(4): Require the Director, Naval Postgraduate School Human Resources Office to maintain an up-to-date list of all relatives employed at the Naval Postgraduate School to be used in reviewing requested reassessments and personnel loans for approval.

Management Comment: NPS concurs with this recommendation. This list has been established and is current.

Estimated Completion Date: This action is considered complete.

Recommendation C.1.d: Request the Naval Audit Service to accomplish a comprehensive audit of the Naval Postgraduate

School as soon as possible. The audit should include a top to bottom review of the School's system of internal control.

**Management Comment:** NPS concurs with this recommendation. NPS identified a requirement for a follow up review of the Naval Audit of 2003 as part of the FY 2004 Management Control Program.

**Estimated Completion Date:** Issue a request to NAVAUDIT SVS to conduct a follow up by 30 December 2005. Completion date dependent on NAVAUDIT response and schedule.

#### Appendix A.

##### Scope and Methodology.

Management control Program Review.

**Adequacy of Management Controls.** We identified material management control weaknesses for NPS, as defined by DoD Instruction 5010.40. Some NPS management Controls were not adequate for implementing Federal laws, DoD regulations, and NPS instructions. Further, in some instances, NPS managers disregarded controls that were already in place. The recommendations, if implemented, will correct the identified weaknesses and improve the overall management of sponsored programs. A copy of the report will be provided to the senior official responsible for management controls at NPS.

**Adequacy of Management's Self-Evaluation.** NPS officials identified the MOVES Institute as an assessable unit. However, in its evaluation, the MOVES Director did not identify the specific material management control weaknesses identified by the audit because he did not consider the weaknesses important enough to report to higher management. NPS officials have included in their most recent Management Control Certification Statement a weakness pertaining to insufficient fiscal oversight on reimbursable program execution.

##### Management Comment.

1. Once complete, implementation of the DoD OIG recommendations should address inadequacies noted in the audit and assist in strengthening the internal controls on NPS.
2. To increase awareness and underscore both management's support and the importance of the Management Control Program on NPS:

a. School Deans and Chairs were briefed on the requirements and responsibilities of the program on 25 January 2005.

b. NPS contracted IBM Business Consultants, who deliver training for FMO, and funded their provision of four sessions of the Management Control Program Awareness Training on 5-6 April 2005.

3. It should be noted NPS identified pilferable property as a local weakness in the Management Control Program prior to the DoD OIG audit. Significant momentum and continuity was lost in correcting the identified deficiency due to the initial realignment of the Property Manager billet to Naval Region Southwest, death of the incumbent of the billet, rotation of personnel in the Supply Officer's billet, and subsequent realignment of the Property Manager's billet back to NPS. NPS assigned a temporarily assigned officer to work with the Executive Director of Facilities in developing a plan of action and milestones to address the internal control weaknesses noted in the report. Planned implementation of the actions will significantly improve accountability for all property on NPS.

4. Planned expansion of the Command Evaluation reviews currently performed on both the Sponsored Program Financial Analysts and Travel/Travel Card will provide additional checks in the current system of internal controls. Reviews consist of a sampling of source and transactional documents not a 100% review. Mitigation of risks associated with both processes is inherent on trained personnel in the activities continuing to review and authorize only those actions that are appropriate to execute a project or mission.

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## **Team Members**

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